

## Notes on Intergovernmental Cooperation and Consolidation

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### MI House of Representatives, Committee on Local Government

1. Local governments continue to face significant fiscal stress due to declining property taxes and increasing health care costs even in the face of stable state revenue sharing. These headwinds imply that local fiscal stress remains a significant problem and a driver of local government cooperation and consolidation discussions.
2. Consolidation may be political or functional in nature; political consolidation is the unification of two units of government and functional consolidation is the unification of two service areas or departments
3. EVIP and CGAP programs have resulted in increased discussion and in some cases increased consolidation a cooperation efforts. Preliminary evidence suggests that while these programs are not perfect they have resulted in some degree of return on state investment.
4. One of the key questions is why so many discussions do not lead to actual consolidation activities
5. Is it because of a) lack of political support, b) community resistance, c) lack of cost savings or revenue enhancement opportunities, d) union resistance, e) legal impediments or some or all of the above.
6. In most cases, each of these elements may play a role. The state has reduced some of the legal impediments with changes to the Urban Cooperation Act for example and there are now new tools to facilitate cooperation and consolidation including grant funding.
7. Given these new tools and funding, legal barriers seem less important and the issue of community and political resistance are growing as barriers to these activities.
8. Economic and financial benefits to local governments are often not enough to overcome the strong feeling that local control is an important objective for local officials and the community.
9. From an economics standpoint, people place a value on local control of services. Thus, it is not an economically irrational decision to maintain local control if citizens are willing to pay the potentially higher costs of providing the service on a standalone basis. The value equation means communities weigh the value of local control against the potential benefits of a consolidated service with lower financial costs.

**Decision to Consolidate** = Value of Local Control ( > or < ) Cost of Service Provision + Upfront Cost

10. State government incentives and legal changes have shifted the pieces of this value equation. In particular, the state government incentives have reduced the upfront cost. In so doing, the decision to consolidate may shift towards a yes versus a no in some cases.

11. Some services are inherently more likely to have lower costs in consolidation than other service areas.
12. Lower costs due to consolidation are more likely to appear in capital and information intensive areas such as Fire and EMS, water and sewer, parks and recreation as examples.
13. Less likely areas for cost savings may be police and law enforcement, clerk's office, human services as examples. These areas may still benefit from quality improvements in terms of consolidation.
14. The state of Michigan has been innovative in "incentivizing" local government cooperation and consolidation; these efforts need to be evaluated and altered to improve success and return on investment
15. Recommendation is to set aside 2% (\$300,000) of CGAP funding from FY 2013-14 to evaluate the success or failure of these programs to date; over \$35 million is projected to be spent on incentives. Overall, state has invested \$265 mil. in revenue sharing incentives related to intergovernmental collaboration and consolidation.

<b>Rev. Sharing Programs</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14 (Gov. Rec.)</b>
<b>Constitutional</b>	\$658.9 mil.	\$725.5 mil.	\$742.6 mil.
<b>Rev. Sharing</b>	\$100.0 mil.	\$104.4 mil.	\$112.5 mil.
<b>County Rev. Sharing</b>			
<b>EVIP</b>	\$195.0 mil.	\$217.5 mil.	\$217.5 mil.
<b>Transparency</b>	Citizens guide and dashboard	1 year budget projection; dashboard	New Debt report
<b>Compensation</b>	Health care premium caps and pension changes	Cap employer contributions to benefits; limits on pension benefits	Compliance with both health and pension limits
<b>Collaboration</b>	Plan for consolidation	New plan or update on plan	Same
<b>CGAP</b>	\$5.0 mil.	\$5.0 mil.	\$15.0 mil.
<b>CIP</b>	N/A	\$23.6.1 mil.	\$25.6 mil.
<b>Transparency</b>		1 year budget projection; dashboard	New Debt report
<b>Compensation</b>		Cap employer contributions to benefits; limits on pension benefits	Compliance with both health and pension limits
<b>Collaboration</b>		New plan or update on plan	Same
<b>Total Revenue Sharing</b>	\$958.9 billion	\$1.07 billion	\$1.12 billion